

ORDER NO. 5305

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Michael Kubayanda, Vice Chairman;  
Mark Acton;  
Ann C. Fisher; and  
Ashley E. Poling

Periodic Reporting  
(Proposal Four)

Docket No. RM2019-9

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSAL FOUR)

(Issued November 13, 2019)

I. INTRODUCTION

On July 9, 2019, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to the analytical methods approved for use in periodic reporting.<sup>1</sup> Proposal Four seeks to revise the costing methodology for the non-Negotiated Service Agreement (NSA) portions of International Priority Airmail (IPA) and International Surface Airlift (ISAL). Petition, Proposal Four at 1. Under the current methodology, the

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), July 9, 2019, at 1 (Petition). The proposal is attached to the Petition (Proposal Four).

NSA and non-NSA portions of IPA and ISAL are treated as single products (Total IPA and Total ISAL, respectively). *Id.* at 1. Proposal Four seeks to treat the non-NSA and NSA portions of IPA and ISAL separately. *Id.* at 1. For the reasons discussed below, the Commission approves Proposal Four.

## II. PROCEDURAL HISTORY

On July 10, 2019, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.<sup>2</sup> The Public Representative filed comments on August 26, 2019.<sup>3</sup> No other party filed comments. The Commission issued Chairman's Information Request No. 1 on October 9, 2019.<sup>4</sup> The Postal Service responded to CHIR No. 1 on October 16, 2019.<sup>5</sup>

## III. BACKGROUND

In its Fiscal Year (FY) 2018 Annual Compliance Report (ACR), the Postal Service reported that non-NSA IPA ("IPA product") did not cover its attributable costs. FY 2018 ACR at 69.<sup>6</sup> The Postal Service noted that almost all IPA volume is entered via an NSA, and the IPA product represents a small portion of total IPA volume. *Id.* The Postal Service explained that the IPA product costs are obtained by deducting the costs for NSA IPA from total (NSA plus non-NSA) IPA costs and stated that since the IPA product cost data is not observed directly, "any variances in the cost estimates for

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<sup>2</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), July 10, 2019 (Order No. 5144).

<sup>3</sup> Public Representative Comments, August 26, 2019 (PR Comments).

<sup>4</sup> Chairman's Information Request No. 1 and Notice of Filing Under Seal, October 9, 2019 (CHIR No. 1).

<sup>5</sup> Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 1, October 16, 2019 (Response to CHIR No. 1).

<sup>6</sup> Docket No. ACR2018, United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018 (FY 2018 ACR).

NSA IPA will have a magnified effect on costs for the IPA product ... and whether the IPA product ... covers its attributable costs.” *Id.* at 69-70.

In its FY 2018 Annual Compliance Determination Report (ACD), the Commission further noted a significant increase in the transportation and delivery costs for the IPA product, with the greatest increase in IPA product’s costs observed in settlement charges.<sup>7</sup> As a result, the Commission directed the Postal Service to report on the following issues within 90 days of the issuance of its FY 2018 ACD:

- The feasibility of directly estimating the costs of the IPA product.
- The feasibility of developing country-specific information on IPA NSA volume or, alternatively, a methodology to distribute settlement charges more accurately.
- The estimated variance of the reported non-NSA IPA product costs based on an analysis of the variance of each of the measurements used to calculate non-NSA IPA product costs, including the variance at the cost segment and component level.

FY 2018 ACD at 107.

*PRIME enhanced payments.* On February 11, 2019, the Postal Service submitted a revised version of the FY 2018 International Cost and Revenue Analysis (ICRA), which included a new methodology to distribute PRIME enhanced payments. Petition, Proposal Four at 3. These payments are accounted for by the Postal Service as settlement costs and their new distribution is discussed in Order No. 5269.<sup>8</sup> Among products that incur the PRIME costs are IPA ePackets (IPA\_E) and commercial ePackets (CEPK), NSA-only mail categories associated with IPA. Order No. 5269 at 1-2. In the FY 2018 ACD, the Commission noted that “the Postal Service distributed these payments to the IPA product, despite asserting that only IPA NSAs incur these

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<sup>7</sup> Docket No. ACR2018, Annual Compliance Determination, April 12, 2019, at 106 (FY 2018 ACD).

<sup>8</sup> Docket No. RM2019-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), October 7, 2019 (Order No. 5269).

payments.” FY 2018 ACD at 107. Consequently, the Commission directed the Postal Service to ensure that the PRIME costs are allocated only to NSA IPA pieces which incurred them and not to IPA product. *Id.* at 107.

As part of Proposal Four, the Postal Service responded to Commission’s requests. In its response, the Postal Service asserts that its data systems are not able to distinguish between non-NSA and NSA IPA mailpieces and, as a result, the costs of the IPA product cannot be estimated directly and the variances of IPA product’s costs at the cost segment and cost component levels cannot be measured. Petition, Proposal Four at 2-3. Consequently, Proposal Four seeks to distribute settlement charges more accurately. *Id.* at 3. Moreover, since ISAL product’s costs are calculated “in a parallel manner” to IPA product costs, Proposal Four includes changes to the costing methodology of both IPA and ISAL. *Id.* at 1.

#### IV. PROPOSAL FOUR

Proposal Four seeks to change the costing methodology for the non-NSA portions of IPA and ISAL. *Id.* Under the current methodology, the NSA and non-NSA portions of IPA and ISAL are treated as single products (total IPA and total ISAL, respectively). The unit costs calculated in the ICRA model from total IPA and total ISAL are subsequently used in the International Costing Module (ICM) for costing of NSA portions of IPA and ISAL. To determine the costs associated with IPA and ISAL products (non-NSA portions of IPA and ISAL), the NSA costs of IPA and ISAL are subtracted from the total (non-NSA plus NSA) costs of IPA and ISAL. *Id.*

Under the proposed methodology, the total IPA and total ISAL volume and weight data that are input to the ICRA from the System for International Revenue and Volume, Outbound (SIRVO) is replaced by only the non-NSA portions of IPA and ISAL SIRVO data to calculate IPA and ISAL products’ costs. *Id.* As a result, the IPA and ISAL products’ costs are no longer calculated by subtracting the NSA costs for IPA and ISAL from the total (non-NSA plus NSA) IPA and ISAL costs. *Id.* at 6.

*Trial balance accounts.* Settlement costs of a product include terminal dues, air conveyance, and surface transit payments to foreign postal operators for the delivery of mail that originated in the United States. Settlement costs for IPA, First-Class Mail International (FCMI), First-Class Package International Service (FCPIS), International Direct Sacks – M-Bags (AMB), and Priority Mail Express International (PMEI) are contained in Trial Balance Account 53299. Settlement costs for ISAL and Priority Mail International (PMI) are contained in Trial Balance Account 53298. The change in settlement costs for IPA and ISAL products in the ICRA results in an off-setting change in settlement costs of the rest of the products linked to Trial Balance Accounts 53299 and 53298, respectively, as well as associated outbound NSAs. *Id.* at 5.

A similar effect is observed with international transportation costs. International transportation costs of air products are contained in Trial Balance Account 53201. International transportation costs of ISAL are reported separately in Trial Balance Account 53212. A change in international transportation costs for IPA product results in an off-setting change in international transportation costs of other products associated with Trial Balance Account 53201. *Id.*

*PRIME enhanced payments.* In the FY 2018 ACD, the Commission instructed the Postal Service to ensure that the PRIME costs are not distributed to the IPA product but rather to the NSA mailpieces that incurred them. FY 2018 ACD at 107. The methodology used in Proposal Four adds the unit PRIME costs incurred by IPA\_E packets and CEPK (NSA mailpieces) to the unit settlement costs of IPA product in the ICRA, prior to their transfer to the ICM for modeling of settlement costs of IPA\_E packets and CEPK. In other words, PRIME costs incurred by NSA mailpieces are no longer attributed to IPA product.<sup>9</sup>

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<sup>9</sup> Library Reference USPS-RM2019-9/NP1 – Nonpublic Material Relating to Proposal Four, July 9, 2019.

## V. COMMENTS

The Commission received comments from the Public Representative. No other interested party filed comments. The Public Representative acknowledges that the Postal Service was not able to provide all the information requested by the Commission because the Postal Service's data systems are not able to distinguish between non-NSA and NSA pieces of IPA mail. PR Comments at 2. Nonetheless, she states that the new methodology avoids the attribution of NSA settlement expenses to the non-NSA portions of IPA and ISAL and as a result, the methodology under Proposal Four improves the accuracy of the Postal Service's periodic reporting. *Id.* at 2.

## VI. COMMISSION ANALYSIS

Based upon a review of the Petition, Proposal Four, the supporting workpapers, the Response to CHIR No.1, and the Public Representative's comments, the Commission approves Proposal Four. Proposal Four improves the Postal Service's costing methodology by treating the non-NSA and NSA portions of IPA and ISAL separately. By treating the non-NSA and NSA portions of IPA and ISAL separately, the Postal Service "avoids the attribution of NSA settlement expenses to the non-NSA portion[s]" of IPA and ISAL. Petition, Proposal Four at 4.

Proposed changes to analytical principles are evaluated to ensure that they "improve the quality, accuracy, or completeness of the data or analysis of data" contained in the Postal Service's periodic reports.<sup>10</sup> Proposal Four improves the accuracy of the Postal Service's data by eliminating the possibility of attributing NSA settlement expenses to the non-NSA portions of IPA and ISAL. Accordingly, the Commission approves Proposal Four.

## VII. ORDERING PARAGRAPH

*It is ordered:*

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<sup>10</sup> See 39 C.F.R. § 3050.11(a).

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Four are approved.

By the Commission.

Darcie S. Tokioka  
Acting Secretary